



## CS Brazil Market Research

## THE TOY INDUSTRY IN BRAZIL February 2006

### The Toy Industry in Brazil - Summary

The Toy industry in Brazil was estimated at R\$900 million (approx. US\$ 391 million) in 2005 – 6% percent higher than 2004. Estimates put the 2006 growth rate at 3–4%.

In 1996 Brazil was authorized by the World Trade Organization to impose 70% import taxes on toys. In December 2004, SECEX (Brazil's foreign trade agency) decided to extend the safeguard measure for an additional one and a half year.

ABRINQ - the Brazilian Toy Manufacturers Association – has been working hard to protect the industry from piracy, under-invoicing and illegal imports. Local manufacturers have modernized operations and improve productivity, but fraud/piracy centimes to hurt the industry.

To succeed in Brazil, US manufactures should be established in the country or have a local agent or distributor. The US Commercial Service in Brazil can help US companies find business partners in Brazil. NOTE: The exchange rate used in this report is US\$ 1.00 = R\$ 2.30.

### Market Overview

The Brazilian Toy Industry is estimated to finish 2005 with US\$391 million in revenues (US\$336.5 million from toys and US\$54.8 million from video games).

	2003	2004	2005 (*)
Revenue (Million of Reais)	820.0	850.0	900.0
Launch of new toys (qty)	1,000	1,200	1,100
Qty of toys created by the designers	7,500	8,000	7,000
Fleet of toys in Brazil (variety)	4,000	4,500	4,200
# of manufacturers	318	330	300
Imports (US\$/million)	32.2	63.5	70.0
Exports (US\$/million)	7.8	9.9	12.0
Price up to R\$ 30.00	65.4%	69.1%	72.0%

Source: ABRINQ

(\*) Estimates

Exchange Rate: R\$ 2.30

Year	Toys (US\$/mi)	Video games (US\$/mi)	Total (US\$/mi)	Number of employees
2003	312	44.3	820	24,300
2004	322.6	47	369.5	20,000
2005	336.5	54.7	391	19,000

Source: ABRINQ The sector is comprised of 347 manufacturers and accounts for 19,000 direct jobs. Jobs in 2005 decreased by 5% compared to 2004.

According to ABRINQ, in 2004, 18.8 tons of toys were illegally imported into Brazil at a cost of US\$3.40 per ton (US\$63 million total). If invoiced correctly, estimates put the total value of these toys at \$190 million—meaning Brazilian authorities lost a large sum of tax revenue from this illegal activity.

Since 1996 Brazil has adopted a safeguard to protect the industry against illegal competition. The Resolution # 35 of December 13, 2004, decided to extend the safeguard measure for an additional one and a half year for finished toys under the following HS Codes: 9501.00.00; 9502.10.10; 9502.10.90; 9502.91.00; 9502.99.00; 9503.10.00; 9503.20.00; 9503.30.00; 9503.41.00; 9503.49.00; 9503.50.00; 9503.60.00; 9503.70.00; 9503.80.10; 9503.80.90; 9503.80.20; 9503.90.00; 9504.10.10; 9504.10.91; 9504.10.99 of the NCM – Mercosur Common Nomenclature, under an additional TEC – Common External Tariff.

### Toy Import Tax Rate Brazil – 2005 – 1<sup>st</sup> Semester 2006

Period	Import Tax	Additional Tax Rate
01/01/2005 to 12/31/2005	20%	9%
01/01/2006 to 06/30/2006	20%	8%

Source: ABRINQ

The creation of the Brazilian Norm for Fabrication and Security of Toys (NBR 11786/92), which regulates the quality of locally manufactured and imported products sold in Brazil, was another measure that helped Brazil develop and protect its toy industry. Based on measure 47 created by INMETRO (The National Institute of Metrology, Standardization and Industrial Quality), the certification of toys became compulsory.

### Competition

Brazil's trade balance in the toy industry has historically been negative. Toy exports in 2005 were estimated at US\$12 million (vs. US\$9.9 million in 2004), while imports reached US\$70 million in 2005 (vs. US\$63.5 in 2004).

Below is chart that illustrates Brazilian imports and the import duty applied for 1996-2005, as compiled by ABRINQ.

Year	Imports US\$/Million	% gain or (loss)	Import Duty
1996	98.1	-	70%
1997	77.2	(21.3)	63%
1998	92.5	19.8	52%
1999	59.9	(35.2)	38%
2000	61.9	3.4	36.5%
2001	48.5	(21.6)	33%
2002	34.8	(28.2)	32%
2003	32.2	(7.47)	31%
2004	63.5	97.2	30%
2005*	70.0	10.2	29%

\* Estimates

Source: ABRINQ

Toy imports, particularly from Asia, have increased as of late because of a strong Brazilian Real (R\$). This has combined with a flood of contraband, fake merchandise and under-invoiced products to create a difficult environment for Brazil's toy manufacturers. Local manufacturers have invested in new technologies to improve their quality and competitiveness, but European and U.S. companies are still looked at as the highest quality.

The chart below represents imports of toys and electronic games from the following HS Code (NCM) 9501.0000 to 9504.1010.

Country	2002 (US\$ FOB)	2003 (US\$ FOB)	2004 (US\$ FOB)
China	26,839,956	24,953,644	52,695,568
Hong Kong	3,016,127	2,134,991	3,118,985
Indonesia	1,256,608	1,169,375	2,433,822
United States	919,368	493,452	287,128
Others	2,768,468	3,419,687	4,989,814

Source: ABRINQ

Along with these challenges, the toy industry faces changing habits of child consumers. No longer preoccupied with conventional toys, these consumers are more interested in cell phones, computers, videogames and other similar products. Toy retailers are also facing serious financing problems, not only in Brazil, but also abroad. Lastly, competition from hypermarkets and other large retailers grows ever fiercer as the stores' diversified product lines provide greater price flexibility and enable them to avoid the seasonable ups and downs experienced by toy-only stores.

### Seasonality

The two major holidays in Brazil for children are "Children's Day" (October 12) and Christmas. Sales for these days are:

- Children day – 35% of sales
- Christmas – 31% of sales
- Birthday during the year – 34% of sales

Below is a table that illustrates industry sales seasonality.

Month	2003 (%)	2004 (%)
January	6.0	4.2
February	5.7	3.8
March	6.6	5.4
April	6.0	7.1
May	6.7	5.9
June	6.6	8.5
July	7.7	9.2
August	9.7	10.1
September	13.1	15.0
October	8.8	7.1
November	14.2	16.5
December	8.9	7.2

Source: ABRINQ

### Market Access

The U.S. Commercial Service Brazil offers a series of services for U.S. exporters interested in Brazil. Details about these services can be obtained through an U.S. Export Assistance Center in your area (<http://www.export.gov/eac>) or can be accessed through [www.buyusa.gov/brazil](http://www.buyusa.gov/brazil).

The best means of entering Brazil is through an established local distributor. Agents can also be used, though these relationships are rarely exclusive, at times causing conflicts of interest. Trade fairs are excellent an opportunity to meet potential clients/partners-more information on upcoming toy shows in Brazil is at <http://www.abrinq.com.br>

To succeed in Brazil, it is important to learn as much as possible about the country's tax, legal & import regulations, contractual practices, and to establish clear objectives for a medium to long-term presence. Companies should be prepared to face short-term difficulties and invest time and resources to partner with a reputable local firm, or hire the most qualified local staff. When choosing a partner, it is crucial to gauge their after-sales service abilities, their geographic distribution and their financing options for potential clients. In regards to financing, as it can be expensive in Brazil, oft times Brazilian partners prefer smaller and less expensive initial contracts to test the market's response.

US exporters should be aware that the certification of toys in Brazil for children below 14 years old is compulsory, regardless of whether it is imported or locally manufactured. INMETRO is the federal government agency that regulates and provides the

mandatory seal to the toy industry. For additional information on the certified laboratories, US exporters should visit INMETRO's website at <http://www.inmetro.gov.br>.

All products imported into Brazil are subject to Brazil's import procedures and fees, which are managed through the computerized system SISCOMEX (Sistema de Comércio Exterior). SISCOMEX simplifies the import procedures by reducing the amount of paperwork and information required by Customs.

U.S. companies should be familiar with any Brazilian standards associated with their products as noncompliance could result in their goods being held from entry. Brazilian

legislation requires Portuguese translation of all technical manuals, and the government imposes restrictions on the import of used equipment, parts and accessories.

For any further information on this industry, please contact us at:

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With its team of industry sector experts, the US Commercial Service can assist US exporters gain entry into the Brazilian market through market research reports, matchmaking services and advocacy programs. The Commercial Service has offices in Brasilia, São Paulo, Rio de Janeiro, Belo Horizonte and Porto Alegre. You can visit us at [www.buyusa.gov/brazil](http://www.buyusa.gov/brazil) or contact us at [sao.paulo.office.box@mail.doc.gov](mailto:sao.paulo.office.box@mail.doc.gov).